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UNCLAS SECTION 01 OF 02 ABUJA 002884

SIPDIS

STATE FOR AF/W, AF/EPS

E.O. 12958: N/A

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SUBJECT: NIGERIA: ECONOMIC ROUNDUP CABLE

REF: A. ABUJA 2768

[1](#)B. ABUJA 2626

[1](#)C. ABUJA 2567

[1](#)1. This periodic economic report includes:

- Dutch Auction Holds Naira Steady
- Supplemental Budget Withdrawn
- IMF and GON begin Article IV Consultations
- Hotels' Privatization in Jeopardy
- Business Opportunities for U.S. Firms in Lagos State
- Nigeria to sign Paris Club Debt Agreement with U.S. by November

#### Dutch Auction Holds Naira Steady

[1](#)2. At the Central Bank's latest Dutch Auction, held October 15, the Naira traded at between 127 and 128 to the dollar, consistent with weeks previous and about a 5 percent depreciation from before the auction was introduced in July 2002, when it traded at about 121 (Ref. B). Central Bank Deputy Governor for Policy Ernest Ebi told econoffs last week that bank management is pleased with how the Dutch Auction System (DAS) has operated to date, claiming that the differential between the DAS-determined exchange rate and the parallel market has now narrowed to less than 8 percent. Meanwhile, Chief Economic Advisor to the President Magnus Kpakol recently commented that "the differential was practically zero." Comment: Our calculations, based on a parallel market rate of 137.5 naira/dollar, indicate that the differential is closer to 9 percent, still a decent rate of return for those with access to dollars at the official rate who would then sell them at the parallel market rate. End comment.

#### Supplemental Budget Withdrawn

[1](#)3. On October 9, President Obasanjo withdrew the 236 million naira (almost \$2 billion) budget request that he had submitted to the House of Representatives on September 22 (Ref. A). Comment: We believe that the President introduced the supplemental budget to entice lawmakers to give up their impeachment efforts against him. With lawmakers still unwilling to do so, Obasanjo decided to withdraw the carrot. End comment.

#### IMF and GON begin Article IV Consultations

[1](#)4. An IMF team was in Abuja from October 9 to 17 to conduct annual (the last were concluded in April 2001) Article IV Consultations with the GON. The team will review the GON's macroeconomic policy framework since it pulled out of an informal monitoring agreement with the IMF in April 2002 (septel).

#### Hotels' Privatization in Jeopardy

[1](#)5. Abuja African Properties Limited, winning bidder in the GON's privatization of the NICON Hilton Hotel, was to have paid \$61.7 million by September 27 to the Bureau of Public Enterprises (BPE), while Hans Gremlin Nigeria Limited had until October 4 to come up with \$34 million for its winning bid for the Abuja Sheraton Hotel and Towers. BPE officials have confirmed press reports that they have extended the payment deadlines to October 21 for Abuja African Properties and October 28 for Hans Gremlin Nigeria because both companies were unable to secure enough foreign exchange (BPE will not accept naira) to finance the transaction. They predict that Hans Gremlin Nigeria will be able to put together the financing, but say that Abuja African Properties will not be able to put together financing.

[1](#)6. Meanwhile, the Abuja Federal High Court has issued a temporary restraining order barring the sale of the NICON Hilton Hotel pending the resolution of a suit filed by the employees of Nicon Insurance (the parastatal insurance

company that owns the hotel property) against the BPE and other government agencies. The plaintiffs claim that the sale would diminish the security offered to policyholders because NICON Insurance would lose an asset while the proceeds from the sale would belong to the BPE.

#### Business Opportunities for U.S. Firms in Lagos State

17. The Governor of Lagos State is pursuing development plans that may benefit U.S. firms. Folorunsho Falarin-Coker, the Governor's personal assistant, told econoffs on October 11 that he and the Governor plan to go to Washington in November to pursue talks on the rehabilitation of the Lagos State water supply and rail transport systems. Falarin-Coker said the Governor wants to privatize the water supply system but must first invest state money to upgrade the system to meet the populations immediate water needs. The Governor is also holding talks with VW Brazil and Volvo for the purchase of busses for use in Lagos. Falarin-Coker said the Governor might be willing to engage in discussions with USTDA regarding a feasibility study for the establishment of a metropolitan bus authority, which a private operator might help set up, operate, and transfer.

18. Probably in an attempt to show that the Governor is serious about business, Falarin-Coker said that the Governor opposes debt relief. He reportedly told World Bank officials in Washington earlier this month that Nigeria should pay the debt it owes and "get on with business." Falarin-Coker said the Governor favors a break up of Nigeria's national telecommunications company, NITEL, and recommends that the utility be restructured along state or regional lines. Such a development, if it were to come about, might generate opportunities for U.S. firms.

#### Methanol Processing Plant Proposed Near Lagos

19. Eurochem Technologies Corporation Ltd. of Singapore and local partners are building a methanol processing plant on Lagos' Lekki Peninsula. When operational, it is expected that the project will utilize approximately 220 million cubic feet of gas, currently being flared, to produce the methanol, which will eventually be feedstock for the production of polyethylene and polypropylene--both used in the production of plastics. The facility is expected to serve as a hub for other petrochemical industries in the downstream oil sector. Ancillary infrastructure to be constructed will include a seaport and other petrochemical manufacturing plants that would utilize the feedstock. Annual export revenues of \$350 million are being estimated. The project is being financed--at least partially--through the ongoing debt conversion scheme, involving purchase of the country's external debt from creditors, presumably at some discount, and selling it back to the debtor at a favorable rate.

#### Nigeria to sign Paris Club Agreement with U.S. by November

110. Director General of the Debt Management Office (DMO) Akin Arikawe told the Ambassador that the U.S.-Nigeria bilateral Paris Club debt agreement will be signed by November. Arikawe also told emboffs that Nigeria was close to agreement with the United Kingdom on nearly \$6 billion in bilateral debt. He said that the debt is to be paid over eight years and the interest rate charged is 4.6 percent.  
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